

NASA Exchange Council

Financial Statements

October 31, 2001

## Audited Statement of Cash and Inventory – Modified Cash Basis

**NASA Exchange Council**  
**Statement of Cash and Inventory - Modified Cash Basis**  
**September 30, 2001**

	<b>Audited</b>
Assets	
Cash (Note 3)	\$          35,728
Inventory (Note 4)	<u>          28,635</u>
Total Assets	<u><u>          \$      64,363</u></u>
Equity	
Equity	<u>          \$      64,363</u>
Total Equity	<u><u>          \$      64,363</u></u>

The accompanying notes are an integral part of this financial statement.

**NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY**

The NASA Exchange Council (Exchange) is a NASA employee volunteer organization. The Exchange's mission includes initiating and promoting activities that contribute to the quality of life, welfare, and morale of NASA Headquarters personnel. The Exchange's responsibilities include: oversight and guidance to the retail store, sponsorship of social and recreational functions, and reporting to NASA management on Exchange activities. The Exchange is reliant on funds generated through its retail store operations and event ticket sales. Space as well as operational equipment for the retail store site is provided by NASA Headquarters.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Statement of Cash and Inventory was prepared based on the cash transactions processed by the Exchange between October 1, 2000 and September 30, 2001, and modified to included year-end inventory balances. The Statement of Receipts and Disbursements was prepared based on cash transactions processed by the Exchange between October 1, 2000 and September 30, 2001. The amounts reflect the receipt and use of funds for the retail store as well as sponsored activities during the fiscal year ending September 30, 2001.

**NOTE 3 – CASH AND CERTIFICATES OF DESPOSIT**

Cash includes funds held by the Exchange's credit union and certificates of deposit.

	<b>Balance</b>
Credit Union Balances	\$25,188
Certificate of Deposit (Maturity Date November 22, 2001, Interest Rate 6.15%)	10,540
<b>Total</b>	<b><u>\$35,728</u></b>

**NOTE 4 - INVENTORY**

Inventories are stated at the historical cost and are comprised of clothing and other materials that are held for sale in the Exchange retail store.

## Report of Independent Accountants

To NASA Exchange Council:

We have audited the accompanying statement of cash and inventory arising from cash transactions, modified to include year-end inventory balances, of the NASA Exchange Council (Exchange) as of September 30, 2001. This statement is the responsibility of the management of the Exchange. Our responsibility is to express an opinion on this statement based on our audit.

We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit of the financial statement provides a reasonable basis for our opinion.

As described in Note 2, this financial statement was prepared on the basis of cash receipts and disbursements, modified to include year-end inventory balances, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statement referred to above presents fairly, in all material respects, the cash and inventory arising from cash transactions of the Exchange at September 30, 2001 on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have issued a report dated October 31, 2001 on our consideration of the Exchange's internal control and a report dated October 31, 2001 on its compliance with laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report considering the results of our audit.



Arlington, Virginia  
October 31, 2001

## Report of Independent Accountants on Internal Control

To the NASA Exchange Council:

We have audited the statement of cash and inventory arising from cash transactions, modified to include year-end inventory balances, of the NASA Exchange Council (Exchange) as of September 30, 2001 and have issued our report thereon dated October 31, 2001.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing our audit, we considered the Exchange's internal control over financial reporting by obtaining an understanding of the Exchange's internal control, determined whether internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement. The objective of our audit was not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

Because of inherent limitations in any internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

We noted certain matters in internal control and its operation that we consider a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements.

### **Inappropriate segregation of duties exists regarding the safeguarding of cash.**

To effectively safeguard cash, organizations should strive to ensure that:

- Cash receipts are received, promptly deposited, properly recorded, reconciled, and kept under adequate security, and
- Cash disbursements are properly authorized, for valid business purposes, properly recorded and reconciled.

To the extent possible, these functions should be segregated so that any one individual does not perform an inappropriate combination of functions that would allow him or her to hide or alter cash transactions. For example, an individual should not be allowed to disburse cash and reconcile the entity's accounting records to the entity's bank records. An individual who was allowed to perform these functions could make inappropriate cash disbursements and then obscure this fact when completing the reconciliations. During our audit, we noted that one of the individuals responsible for making disbursements is also responsible for reconciling the accounting and bank records. We also noted that the same person responsible for making disbursements is also responsible for entering the disbursements to the accounting records. Both examples represent an inappropriate segregation of duties which we consider to be a significant internal control deficiency.

## **Recommendation:**

We recommend that the Exchange review all functions related to cash receipts and disbursements and ensure that the same individual does not perform inappropriate functions. The Exchange should strive to ensure that the following functions for receiving and disbursing funds are segregated:

<b>Individual Responsibility</b>	<b>Function that Compromises Controls</b>
Collecting and depositing funds	Recording deposits in the accounting records
Authorizing and disbursing funds	Recording disbursements in the accounting records
Preparing and completing bank reconciliations	Collecting or disbursing funds

If resources constraints prevent the Exchange from segregating the duties outlined, then the Exchange should ensure that more than one individual reviews certain functions, such as writing checks and performing reconciliations.

\* \* \*

A material weakness in internal control is a reportable condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited or material to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is not a material weakness.

We also noted certain other matters involving internal control that we will report to the Exchange in a separate management letter.

This report is intended solely for the information and use of the Exchange. This report is not intended to be and should not be used by anyone other than these specified parties.



Arlington, Virginia  
October 31, 2001



**Report on Compliance with Laws and Regulations**

To the NASA Exchange Council:

We have audited the accompanying statement of cash and inventory arising from cash transactions, modified to include year-end inventory balances, of the NASA Exchange Council (Exchange) as of September 30, 2001, and have issued our report thereon dated October 31, 2001. We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance with laws and regulations applicable to the Exchange is the responsibility of management. As part of obtaining reasonable assurance about whether the Exchange's financial statement is free of material misstatement, we performed tests of the Exchange's compliance with certain provisions of applicable laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of these tests was not to provide an opinion on the Exchange's overall compliance with laws and regulations. Accordingly, we do not express such an opinion.

The results of our tests of compliance with laws and regulations disclosed no instances of noncompliance with laws and regulations that we believe are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Exchange. This report is not intended to be and should not be used by anyone other than these specified parties.



Arlington, Virginia  
October 31, 2001

## Unaudited Statement of Receipts and Disbursements – Modified Cash Basis

**NASA Exchange Council**  
**Statement of Receipts and Disbursements - Modified Cash Basis**  
**September 30, 2001**

	<b>Unaudited</b>
Receipts (Note 3)	
Exchange Sales and Event Receipts	\$ 207,903
Interest Income	115
Total Receipts	<u>\$ 208,018</u>
Disbursements (Note 4)	
Merchandise	\$ 89,175
Employee Wages and Payroll Taxes	51,398
Store Services	30,322
Fully & Partially Sponsored Events	24,448
Representational Facility	11,783
Administrative	4,902
Cash Disbursements	<u>\$ 212,028</u>
Receipts in Excess/(Less) than Disbursements	<u><u>\$ (4,010)</u></u>

See Accountant's Review Report

**NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY**

The NASA Exchange Council (Exchange) is a NASA employee volunteer organization. The Exchange's mission includes initiating and promoting activities that contribute to the quality of life, welfare, and morale of NASA Headquarters personnel. The Exchange's responsibilities include: oversight and guidance to the retail store, sponsorship of social and recreational functions, and reporting to NASA management on Exchange activities. The Exchange is reliant on funds generated through its retail store operations and event ticket sales. Space as well as operational equipment for the retail store site is provided by NASA Headquarters.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Statement of Receipts and Disbursements was prepared based on cash transactions processed by the Exchange between October 1, 2000 and September 30, 2001. The amounts reflect the receipt and use of funds for the retail store as well as sponsored activities during the fiscal year ending September 30, 2001.

**NOTE 3 - RECIEPTS**

The Exchange finances its operations with funds generated through sales of merchandise and services from the retail store and ticket sales to several social events. Receipts are also comprised of interest earned on the Exchange's checking and savings accounts and from the Exchange's certificate of deposit.

**NOTE 4 - DISBURSEMENTS****1. Merchandise**

Merchandise includes clothing and other items sold through the Exchange retail store.

**2. Employee Wages & Payroll Taxes**

Retail store employees are paid on an hourly (non-exempt) basis. The Exchange has contracted with Automated Data Processing, Inc. (ADP) to process the payroll and employment tax transactions on behalf of the Exchange. ADP is responsible for disbursing the payroll payments to the Exchange employees, and for depositing the related payroll tax with the proper government organizations.

**3. Store Services**

The retail store contracts out for services used by NASA employees including film processing and massage service.

**4. Fully and Partially Sponsored Events**

The Exchange plans and coordinates social events, which can be put into two categories, fully funded and partially funded. Fully funded events are paid for entirely with funds from the Exchange. The Exchange as well as other employee organizations and employees fund partially funded events.

**5. Representational Facility**

The representational facility is an executive dinning room that is run by an outside contractor. The Exchange advances funds to the contractor to provide meals to the Exchange members who dine in this facility. Payment for use of the facility is made through the retail shop at the beginning of each month.

**6. Administrative**

This category includes the cost for other administrative expenses of the Exchange, such as insurance payments.

**Report of Independent Accountants**

To NASA Exchange Council:

We have reviewed the accompanying statement of receipts and disbursements arising from cash transactions of the NASA Exchange Council (Exchange) for the year ended September 30, 2001, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in this financial statement is the representation of the management of the Exchange.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As described in Note 2, this financial statement was prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above in order for them to be in conformity with the basis of accounting described in Note 2.



Arlington, Virginia  
October 31, 2001